BANGLADESH

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Millions of U.S. dollars unless otherwise noted)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	31,814	32,847	42,800
Real GDP Growth (pct)	5.3	5.9	5.6
GDP by Sector: 3/			
Agriculture	9,535	9,796	N/A
Manufacturing	3,042	3,039	N/A
Services	16,667	17,353	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$) 2/	260	263	308
Labor Force (000s)	4,800	5,600	N/A
Unemployment Rate (pct) 4/	35.9	36.5	36.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.2	10.8	10.1
Consumer Price Inflation 5/	6.6	2.6	7.0
Exchange Rate (Taka/US$ annual average)			
Official	40.9	42.7	45.4
Balance of Payments and Trade:			
Total Exports FOB	3,882	4,418	5,111
Exports to U.S. 6/	1,343	1,679	N/A
Total Imports CIF	6,881	7,162	7.525
Imports from U.S. 6/	210	259	N/A
Trade Balance	-2,999	-2,744	-2,414
Balance with U.S. 6/	1,133	1,420	N/A
External Public Debt 7/	15,170	15,025	15,855
Fiscal Deficit/GDP (pct)	4.4	4.2	4.2
Current Account Deficit/GDP (pct)	4.1	2.2	1.8
Debt Service Payments/GDP (pct)	9.4	8.7	8.2
Gold and Foreign Exchange Reserves	2,039	1,719	1,768
Aid from U.S. 8/	65.0	73.6	77.0
Aid from All Sources 9/	1,444	1,481	1,419

1/ The Bangladesh fiscal year is July 1-June 30. Data for FY98 is mostly provisional.

2/ Due to change in methodology, the FY98 GDP figure is not comparable to FY97 and FY96.

3/ FY98 GDP by sector is not yet available; it is expected to be similar to the FY97 distribution.

4/ Includes estimated under-employment (34 percent).

5/ Calculated on new CPI, base year 1985-6.

6/ Figures are for the calendar year.

7/ Medium and long-term.

8/ Figures are for the U.S. fiscal year (October 1-September 30).

9/ Disbursements.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed countries; its per capita income for 1997 is estimated at $263. Most of its population of approximately 127 million is tied directly or indirectly to agriculture, which accounts for 35 percent of Gross Domestic Product (GDP) and about 70 percent of the labor force. While economic growth in fiscal year (FY) 1998 dropped 0.3 percentage points to 5.6 percent, primarily due to lower agricultural production, it remained above the historical average annual growth rate of 4.0 to 4.5 percent over the last ten years. The historical growth rate, though positive on a per capita basis, is inadequate to relieve the poverty faced by over half the population.

GDP growth has been dampened over the years by a number of factors: low productivity growth in the agricultural sector, political and policy instability, poor infrastructure, corruption, and low domestic savings and investment. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. Nonetheless, during the 1990's Bangladesh has steadily liberalized its economy, and increasingly the private sector has assumed a more prominent role as the climate for free markets and trade has improved. The Awami League government, which came to power in June 1996, largely continued the market-based policies of its predecessor, the Bangladesh National Party. It placed a high priority on increasing foreign investment in the economy, and has made some regulatory and policy changes toward that end. However, implementation of new policy directives by the bureaucracy has been slow and uneven.

Bangladesh suffered its worst flood in history during the summer and fall of 1998. The economic damage is still being assessed, but preliminary estimates suggest a loss of $4.3 billion, or 10 percent of GDP. A large proportion of the winter rice crop could not be planted, which increased the food import bill dramatically despite the assistance of donor nations. The United States has pledged a donation of 700,000 metric tons of wheat. As of the end of October 1998, Bangladesh's foreign exchange reserves stood at about $1.7 billion, or less than three months of import cover. These reserves are expected to decrease in the coming months due to imports of food grain and the capital equipment needed to repair flood-damaged infrastructure. The World Bank and the International Monetary Fund (IMF) will provide emergency balance of payment relief of over $300 million, and in turn, Bangladesh has signaled a willingness to negotiate an Enhanced Structural Adjustment Facility (ESAF) with the IMF. Such an ESAF is likely to be conditional on government revenue enhancement measures, financial sector reform and public sector reform, including privatization.

Inflation surged to 7 percent in FY98 from 2.6 percent in FY97, reflecting food price hikes, public sector wage increases, and robust money growth towards the end of the fiscal year.

Inflation is expected to rise to 8 percent in FY 99. Since Bangladesh has limited trade and investment links overseas, the economy has not been greatly affected by the Asian financial crisis. However, to maintain its export competitiveness, the taka was devalued a total of 6.1 percent during FY98 and an additional 2.97 percent in October 1998. Bangladesh's export performance, heavily concentrated in garments, has continued to be strong, with a trade surplus of $1.4 billion with the United States in calendar year 1997.

The FY98 government deficit narrowed to 4.2 percent of GDP, compared to 4.4 percent of GDP in FY97, as shortfalls in revenues were matched by lower Annual Development Plan (ADP) spending. (Note: The deficit is projected to widen to 4.7 percent of GDP in FY 99 due to the temporary decline in revenue collections and higher food imports.) Revenue shortfalls were the result of lower than expected VAT and customs duty collection due to weak customs administration, lower than forecast dutiable items, litigation relating to customs duty, and lower gas production. ADP spending was well below budget due to slow project implementation and conscious efforts by the government to control spending. The deficit was financed primarily by high-interest national savings certificates, which account for a growing domestic debt service component in government expenditures. Net foreign financing accounted for 2.6 percent of GDP in FY98. Tax revenues are estimated at $3.02 billion in FY98, or about 7.6 percent of GDP. This ratio has increased only marginally in the last five years.

In its FY99 budget, the government announced several incremental fiscal reforms, including expansion of VAT coverage and reduction in the number of personal income tax rate bands from 5 to 4, which should have a positive impact on the fiscal health of the economy over the medium term. The government's primary monetary policy tools are the discount rate and the sale of Bangladesh Bank bills, though central bank influence over bank lending practices also plays an important role. Broad money growth (M2) has been restrained in FY98, falling to 10.1 percent, as the central bank increased the rediscount rate to 8 percent and also applied pressure on banks to improve their capital adequacy requirements.

Although some liberal investment measures have been taken by the government to foster private sector involvement in the energy, power, and telecommunications sectors, poor infrastructure (e.g., power shortages, port bottlenecks), bureaucratic inertia, corruption, labor militancy, a weak financial system which keeps the cost of capital high, political unrest, and a deteriorating law and order situation continued to discourage some domestic and foreign investors in FY98. Gross investment, which stagnated at 12 to 13 percent of GDP in the 1985-1992 period, increased marginally from 20.9 percent in FY97 to 21.0 percent in FY98, although some of this increase may be attributable to a change in calculation methodology. If one subscribes to the view of some economists that an economy can begin to alleviate poverty on a large scale if it can achieve a threshold of a 20-22 percent investment/GDP ratio and a 7 percent GDP growth rate, then Bangladesh needs only a moderate acceleration in its growth rate to begin a meaningful assault on poverty.

2. Exchange Rate Policies

At present, the central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of the real effective exchange rate, taking account of the nominal exchange rates and inflation rates of major trading partners. A level of reserves equal to 2.6 months of imports and a black market rate close to the official rate suggest the central bank has fixed the exchange rate close to the equilibrium level in the short term. Foreign reserves have stabilized at around $1.7 billion through 1997 and 1998. While this level is considered normal for Bangladesh, its foreign exchange position is vulnerable as flood-related food and capital equipment imports increase in the coming months. The World Bank and IMF emergency balance of payments funds will provide relief, but further devaluation of the taka is expected, possibly as part of an IMF-sponsored ESAF program. While the taka remains under pressure, its market value is bolstered by annual aid receipts and by remittances from overseas workers. The taka is nearly fully convertible on the current account. The official exchange rate on November 9, 1998 was Taka 48.7 to $1.

Foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided the appropriate documentation is presented to the Bangladesh Bank, the country's central bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must be in support of export activities. Bangladeshi travelers are limited by law to taking no more than $3,000 out of the country per year. Dollars are bought and sold in the black market, fueled by the informal economy. U.S. exports do not appear to have been negatively affected by the taka devaluations in 1998.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year ESAF program, meeting all the IMF fiscal and monetary targets. In view of the continuing need for structural reform, which was brought into focus by the recent flood-induced economic crisis, Bangladesh has indicated a willingness to enter into another three-year ESAF program, with negotiations scheduled in late 1998. A new ESAF program is expected to include three components: tax reform with better tax administration and a broadening of the tax base; financial sector reform with stronger oversight and supervision by the central bank, privatization of state-owned commercial banks, and improvement of loan portfolios; and, public sector reform with an acceleration in privatization of state-owned enterprises.

While Bangladesh has managed to maintain a laudable measure of macroeconomic stability since 1993, its macroeconomic position at the end of 1998 remains vulnerable, with relatively high (though falling) fiscal deficits, increased public sector borrowing from the banking system, an expected deterioration in the trade balance, and stagnant tax revenues. Progress on other important economic reforms has been halting, though the government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Overall, however, efforts at reform often are successfully opposed by vested interest groups, such as the bureaucracy, public sector labor unions or highly protected domestic producers in import-competing industries. The public sector still exercises a dominant influence on industry and the economy; non-financial state-owned enterprises (SOEs) lost an estimated $364 million in 1997. Most public sector industries, including textiles, jute processing, and sugar refining, are perennial money losers, which drain the treasury. Their militant unions have succeeded in setting relatively high wages which their private sector counterparts often feel compelled to meet out of fear of union action. Despite pledges for action, the government failed to implement jute sector reforms under a World Bank adjustment credit program in 1997; the program has been suspended until reforms are carried out.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline), most of which is under government monopolies. Recognizing this shortcoming, and in order to increase foreign investment in the power sector, the government formalized in October 1996 its private power policy, which grants tax holidays and duty-free imports of plant and equipment for private sector power producers. As of November 1998, the government was purchasing power from one international Independent Power Producer, and was negotiating or had signed contracts with others. Private investment is also allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sectors, where international companies initially expressed a high level of interest in a second round of bidding for remaining exploration rights. One international company started delivering natural gas to the government in mid-1998, and a second company is scheduled to do so in early 1999.

The government is also trying to attract foreign portfolio investment in domestic capital markets, but a stock market crash in late 1996 together with turbulence in other financial markets around the world, appears to have kept many international investors out of the market in 1997 and 1998. Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, the dysfunctional banking sector continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks. However, entry of foreign and domestic private banks has been permitted; a good number of new banks have established a foothold in the market during the last four years.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $15.9 billion in FY98, up slightly from 15.0 billion in FY97. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e. one or two percent interest, 30-year maturity, 20-year grace period), the net present value of the total outstanding debt is significantly lower than its face value. The external debt burden has eased during the 1990's with the external public debt as a percentage of GDP falling from 45.6 percent in FY94 to 37.1 percent in FY98. Debt service as a percentage of current receipts has also declined, from 20 percent in FY91 to an estimated 8.2 percent in FY98. Bangladesh maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund and the donor community. There has been no rescheduling of the external debt during the last fiscal year.

5. Aid

No military aid is included in the figures in the tables.

6. Significant Barriers to U.S. Exports

Since 1991, the government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. Even so, Bangladesh continues to raise a relatively high share of its government revenues -- nearly 60 percent -- from import-based taxes, custom duties, VAT and supplementary duties on imports. Tariff reform was accelerated significantly in 1994 and 1995 by the compression of customs duty rates into a range of 7.5 to 15 percent for most products with a maximum rate of 50 percent (with the exception of certain luxury goods, for which duties remained in excess of 100 percent). The trade-weighted average import tariff rate dropped from 40 percent in FY92 to 28 percent in FY94 to below 25 percent in FY97.

The FY99 budget further reduces tariffs on products covering 1,025 HS lines, but no estimate is currently available regarding the effect of these on the average weighted tariff rate. Other reforms announced in the FY99 budget include reduction in the number of non-zero duty rates from 6 to 5, the introduction of a rapid "green channel" clearance system for imported goods, and a reduction in the maximum tariff rate to 40 percent. There is no duty on import of cotton, textile machinery, certain machinery used in irrigation and agriculture, animal feed, and certain medicines and medical equipment. There is, however, a 2.5 percent import surcharge for infrastructure development, and some supplemental duties on luxury items were increased in the FY99 budget.

Bangladesh, a founding member of the World Trade Organization (WTO), is subject to all the disciplines of the WTO. Some barriers to U.S. exports or direct investment exist. Policy instability, where policies are altered at the behest of special interests, also creates difficulties for foreign companies. The government monopoly controls basic services and long-distance service in the telecommunications market, although the government granted three licenses to private cellular companies in late 1996 to end a private company's monopoly. In November 1998, the government also issued a temporary license to a U.S. company that is establishing a world-wide cellular telephone system. Non-tariff barriers also exist in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies.

Bangladesh is not a signatory to the WTO plurilateral agreements on government procurement or civil aircraft. Government procurement generally takes place through a tendering process, which is not always perceived as a transparent process by foreign companies. Bangladesh has some countertrade arrangements with countries in Central and Eastern Europe, Central Asia, China and North Korea.

Customs procedures are lengthy and burdensome, and further complicated by corruption. The systems of customs valuation has been supplemented by the acceptance of Pre-Shipment Inspection (PSI) certificates from four international inspection companies, but customs' acceptance of these certificates is not yet mandatory and some products have been removed from PSI eligibility. The government removed more items from PSI eligibility in its FY98 budget.

Customs duty revenues are scheduled to be higher in absolute terms in the FY99 budget, although they have been falling as a share of total revenue over the last several years. Reform attempts of customs practices are ongoing.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, and uncertain law and order. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is completely deregulated, and the government has significantly streamlined the investment registration process. However, while registration has been simplified, domestic and foreign investors typically must obtain a series of approvals from various government agencies in order to implement their projects. Bureaucratic red tape, compounded by corruption, slows and distorts decision-making and procurement. Existing export processing zones have successfully facilitated investment but are still too small to have changed significantly the overall investment picture in the country.

Until recently, U.S. investment stock in Bangladesh was very small, totaling around $25 million, primarily in the assets of service companies and a few manufacturing operations. As work began in late 1997 or 1998 based on agreements between the government and U.S. companies in gas exploration and production, lubricants and energy production, the amount of U.S. investment has risen significantly. Many other opportunities for significant investment in gas exploration and production, in power generation and in private port construction/operation could further swell U.S. investment and trade.

7. Export Subsidies Policies

The government encourages export growth through measures such as duty-free status for some imported inputs, including capital machinery, and easy access to financing for exporters. Ready-made garment producers are assisted by bonded warehousing and back-to-back letter of credit facilities for imported cloth and accessories. The central bank offers a 25 percent rebate to domestic manufacturers of fabric for ready-made garment exports. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Government-financed interest rate subsidies to exporters have been reduced in stages over five years. Bangladesh has established Export Processing Zones (EPZs) in Chittagong and Dhaka, and has plans to open two more. The government in late 1996 gave the private sector the authority to build and operate private export processing zones; Korean investors have come forward with a plan for the first private EPZ, although progress has been slow.

8. Protection of U.S. Intellectual Property

Bangladesh is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. Bangladesh has also been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985.

Bangladesh has never been mentioned on a the U.S. Trade Representative's "Special 301" Watch List which identifies countries that deny adequate and effective protection for intellectual property rights or deny fair and equitable market access for persons that rely on intellectual property protection.

Even though Bangladesh has not been placed on the "Special 301" Watch List, it has outdated Intellectual Property Rights (IPR) laws, and an unwieldy system of registering and enforcing intellectual property rights. Intellectual property infringement is common, particularly of computer software, motion pictures, pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts.

The WIPO and the United Nations Development Program (UNDP) in 1995-6 funded a small project providing automation and training for the patent office. The government and WIPO hosted seminars on IPR issues in 1997 and 1998. Bangladesh has begun reforms to increase the level of IPR protection in order to meet its obligations under the WTO TRIPS. In consultation with WIPO, the government began drawing up IPR reforms laws in 1992 and has hired consultants to review the IPR draft laws in view of WTO TRIPS provisions. The completion of the review and subsequent modification and vetting of the drafts is expected to take more than an year, with parliamentary passage taking further time.

9. Worker Rights

a. The Right of Association: Bangladesh's Constitution guarantees freedom of association, the right to join unions, and, with government approval, the right to form a union. With the exception of workers in the railway, postal, telegraph, and telephone sectors, government civil servants are forbidden to join unions. However, some workers covered by this ban have formed unregistered unions. The ban also applies to security-related government employees, such as in the military and police. Civil servants forbidden to join unions, such as teachers and nurses, have joined associations which perform functions similar to labor unions.

b. The Right to Organize and Bargain Collectively: Unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling party. Pitched battles between members of rival labor unions occur regularly. Some unions are militant and engage in intimidation and vandalism. General strikes were used successfully by the political opposition in early 1996 to pressure the government to call elections and step down. Rising political tensions again led to several general strikes during 1997 and 1998. General strikes cause economic and social disruption through lost production and, more significantly, transportation delays causing missed shipping dates for exports. Strikes motivated by labor issues are not uncommon. Port workers' strikes and/or "slowdowns" occurred regularly in 1998, partially in reaction to a proposed private container port.

The Essential Services Ordinance permits the government to bar strikes for three months in any sector deemed "essential." Mechanisms for conciliation, arbitration and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969.

There have been numerous complaints of garment workers being harassed and fired in some factories for trying to organize workers. Workers in Bangladesh's EPZs are prohibited from forming unions, though some workers have skirted the ban by setting up associations. The government has not fulfilled promises that labor law restrictions on freedom of association and formation of unions in the EPZs would be lifted in 1997.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to guard against forced labor, but resources for enforcement are scarce. Nevertheless, there is believed to be little use of forced labor, though conditions for some domestic servants resemble servitude, and some trafficked women and children work as prostitutes.

d. Minimum Age for Employment of Children: Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangladesh's, the extra income obtained by children, however meager, is sought after by many families.

In July 1995, Bangladesh garment exporters signed a memorandum of understanding that has virtually eliminated child labor in the garment export sector. Under the MOU, schools and a stipend program were established for displaced child workers. By November 1998, hundreds of schools serving thousands of former child workers were in operation. A system of fines and possible suspension of import/export privileges exists, and a monitoring system has been set up by the International Labor Organization.

e. Acceptable Conditions of Work: Regulations regarding minimum wages, hours of work and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced. The law sets a standard 48-hour workweek with one mandated day off. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient for minimal, basic needs. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many Bangladeshi employers.

f. Rights in Sectors with U.S. Investment: There are few manufacturing firms with U.S. investment. Firms with U.S. investment generally try to avoid unions for their workforce. Worker layoffs or the threat of reductions-in-force can cause serious management-labor disputes. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry. In some cases, workers in these firms enjoy shorter working hours than those working in comparable indigenous firms.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		-5
Food & Kindred Products	0	
Chemicals & Allied Products	-5	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		11
Banking		(1)
Finance/Insurance/Real Estate		-3
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		83

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.